



## Global upturn bumpy as Governments withdraw stimulus

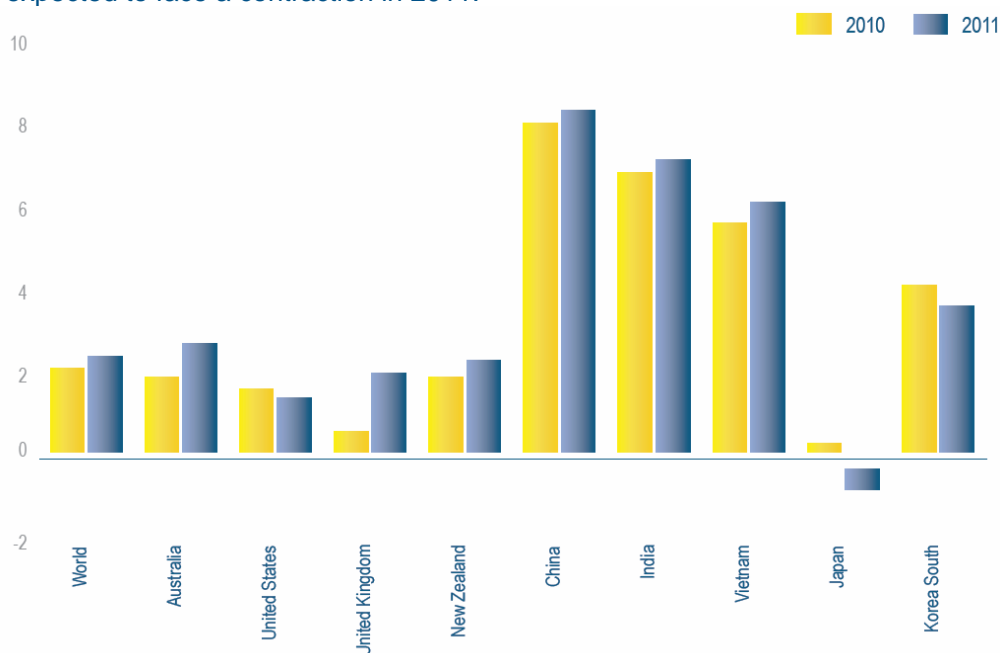
*Australian economy in better shape than most developed markets*

The risk of sluggish and weak growth this year is becoming increasingly apparent despite the healthy pace of expansion that is occurring in the global economy entering 2010.

Dun & Bradstreet's *2010 Economic & Risk Outlook Report*, released today, reveals that major emerging markets such as China and India continue to experience rapid economic expansion and both the US and Europe have pulled out of recession.

However, the winding down of stimulus programs around the globe, high unemployment and a continuation of subdued bank lending are likely to result in a slowdown during the course of 2010. Consequently, more than 60 countries around the world are expected to record lower output in real terms in 2010 than they did prior to the crisis. Those countries most closely integrated with the US economy in particular, are expected to continue to suffer from the effects of muted US demand.

Despite predicting a global slowdown, the D&B report forecasts positive economic growth at a global level and a promising outlook for Australia. World economic growth is expected to hit 2.0 percent this year and 2.3 percent in 2011. This comes on the back of estimates which indicate that the global economy contracted by 2.2 percent in 2009. Meanwhile, Australia is expected to track Chinese demand which is forecast to continue at a relatively rapid pace this year. In addition, Australia's key trading partners are expected to record positive economic growth this year however, Japan is expected to face a contraction in 2011.



**Real GDP Growth Forecasts 2010 and 2011**

According to Damian Karmelich, Director of Corporate Affairs, 2010 looks relatively promising for many economies around the world however, markets are increasingly appreciating the risk that a renewed economic slowdown could occur this year.



“2010 looks significantly more positive than 2009 however, as we predicted during 2009, this year will be challenging,” said Mr Karmelich.

“Government stimulus packages underpinned much of the growth recorded last year and with these packages scheduled to be unwound in 2010, the stimulus will need to be supplanted by private demand if economies are to continue on their current growth trajectory.

“Government’s and firms’ need to be aware of the risks which could significantly disrupt the return to solid economic growth and ensure they are prepared to manage them effectively.

“To avoid significant disruptions and maximise medium term growth prospects will require a solid focus on pro-business policies.”

This year will continue to reveal the differences in exposure of individual economies to the credit crisis, with the outlook for Australia’s key trading partners varying significantly.

The recovery in the United States will be slow. High unemployment, diminished savings, restricted bank lending, the expiry of fiscal stimulus measures and the completion of inventory-rebuilding all raise the possibility of another slowdown in growth over the course of 2010. Real GDP growth is forecast to reach 1.5 percent and 1.3 percent in 2010 and 2011 respectively however, these figures are well below the average growth rate of 2.9 percent in the 1989-2008 period.

The United Kingdom and Japan are also facing a relatively sombre outlook. Following the longest period of unbroken contraction since quarterly records began in 1955, the UK’s subdued confidence will limit GDP growth to below 1.0 percent in 2010. Meanwhile, Japan has suffered a downgrade to its country rating (to DB2c), putting it in the bottom half of the ‘low risk’ range. In addition, Japan is classified as being on a deteriorating trend – this is in contrast to the smaller, middle-income exporting countries in the region.

Positively for Australia, whose economic fortunes are closely linked with China, the risk outlook for the developing nation is generally encouraging. China looks to be focused on boosting domestic consumption and strategic industries in 2010. D&B forecasts that China will sustain economic growth of more than 7.0 percent this year.

In addition, Australia’s economy enters 2010 in a much healthier state than most developed markets and is well placed to benefit from the global recovery. Although ongoing balance sheet adjustment and unemployment fears are likely to stifle growth in the major industrialised countries, growth in many developing countries (especially China and India) is set to be relatively strong. As a result, aggregate demand for Australian exports is likely to be close to the long-term trend in 2010.

“The latest economic data and forecasts indicate that we can expect a much stronger performance from Australian firms in 2010 than we saw in 2009,” said Mr Karmelich.



Decide with Confidence

---

“Healthy business and consumer confidence levels bode well for domestic demand in 2010. Businesses have begun to upgrade investment plans, pointing to a rebound in gross fixed capital formation in the latter half of 2010, while households are becoming less fearful of rising unemployment.

“In addition, firms opted to hoard labour during the downturn, reducing hours worked rather than cutting jobs. This should help to alleviate the problems of severe skills shortages that the country has suffered in previous upswings.

“Regardless, there is still room for caution in this optimistic scenario.”

Some developed nations face the risk of speculative asset-price bubbles emerging as a result of the combination of extremely low interest rates and rising investor risk-aversion. Others are experiencing macroeconomic problems as capital inflows threaten to overvalue their exchange rates. Investor risk-aversion will continue to influence major investment decisions in 2010, underlining the importance of pro-business policies for maximising medium term growth prospects.

According to the *2010 Economic & Risk Report*, these factors are unlikely to derail economic growth in the near term however, mounting inflationary pressures from rising hydrocarbons and food prices are also an area of potential risk. This issue may force governments to reverse monetary policy easing before the economic circumstances are ripe. Interest rate moves will have important consequences, as governments are unlikely to be able to afford additional fiscal stimulus programs.

---

**Media Notes:** For further information, a copy of the full report or to arrange an interview please contact:

Danielle Woods  
Corporate Affairs Manager  
T: 02 8270 2926  
M: 0417 270 130  
E: woodsd@dnb.com.au